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May 10, 1975

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LAOS

The large-scale demonstration against the US embassy in Vientiane yesterday and the continuing disturbances in the southern rightist stronghold of Pakse--actions clearly inspired by the Pathet Lao--are proof that Prime Minister Souvanna Phouma is no longer in control of events in Laos. His order of May 7--issued on behalf of the coalition cabinet--banning further civil disorders throughout the country is being ignored.

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[REDACTED] On the afternoon of May 8, he appealed directly to the demonstration's organizers to call off their protest, or at least to reroute their line of march away from the US embassy, but the organizers refused.

Once the demonstration was under way, Souvanna immediately contacted communist Deputy Prime Minister Phoumi Vongvichit to tell him that the actions against the embassy--particularly the pulling down of the American flag--were "unacceptable" and that the US would view this as a serious provocation. He urged Phoumi to bring the protest to a halt before it got completely out of hand. Phoumi--disclaiming any knowledge of the matter--offered little help.

The US chargé has registered strong protests with both Souvanna and Phoumi over actions yesterday against the embassy, citing in particular the inadequate police protection afforded American personnel and installations there and elsewhere in Vientiane.

In his conversation with Phoumi, the chargé asked whether the coalition government supported the demonstrators' demand for an end to the US presence in Laos. Phoumi apologized for the incident at the embassy and told the chargé that there was "no reason to leave the country," since the situation would soon calm down. He explicitly affirmed that the Pathet Lao were prepared to continue to work "within the framework of the 1973

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Vientiane peace agreements" and that US economic and military assistance would continue to be welcome, providing the aid was distributed equally to the two sides.

By his remarks, Phoumi seemed to be implying that the Pathet Lao expect to maintain the coalition government facade after they consolidate political power in Vientiane. That moment drew much closer yesterday when five prominent rightist cabinet members, including Defense Minister Sisouk na Champassak and Finance Minister Ngon Sananikone, submitted their resignations. All had been prime targets of recent Pathet Lao - instigated demonstrations.

Sisouk reportedly has sought refuge in Thailand, where he will shortly be joined by Prince Boun Oum and other members of the southern rightist Champassak clan. Ngon is said to be flying to Paris. An exodus of other wealthy Lao, Chinese, and Vietnamese residents of Vientiane is under way, and the Australian embassy ordered the evacuation of dependents and nonessential personnel.

Vientiane quieted down late yesterday, but most shops remained closed, and more demonstrations were reported to be planned for this weekend--a three-day Lao holiday. The US embassy plans to shut down during this period in order not to provide a target for the demonstrators.

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USSR

The Soviets intend to display the TU-144 Charger supersonic transport at the Paris Air Show--scheduled for May 30 to June 8--despite the crash of one during the last show in 1973. The IL-76 Candid transport, the TU-154 Careless trijet transport, and the Yak-40 Codling light short-haul transport will also return to the Paris show. Rumors are circulating that at least one MIG-23 Flogger multipurpose swing-wing fighter will be displayed.

The Charger crash, in which six crew members and 15 French people on the ground were killed, is believed to have been caused by pilot error. Because of the disaster, this year's flight activity by all aircraft will be reduced considerably. The French government has prohibited demonstration teams, jet formation flights, and acrobatic maneuvers. Informal aerial exhibitions will be presented each day, but only one formal flying exhibition will be allowed during the show.

The Soviet air attaché in London stated several months ago that his country planned to bring the Flogger to this year's show. Soviet officials have not listed it as an exhibit, but sometimes in the past they have withheld the identity of an exhibit until just before it landed at the display location. The appearance of the Flogger in Paris would mark the first time a Soviet combat aircraft has appeared at the show, which affords manufacturers an opportunity to display and market their aircraft. The Flogger has already shown promise of becoming a popular export.

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RHODESIA

Leaders of the Commonwealth countries at their meeting in Jamaica this week gave new support to the efforts of Rhodesia's black nationalists to achieve majority rule. The firm language of the final communiqué almost certainly resulted from intense lobbying efforts by the African heads of state and Rhodesian nationalists who attended the session.

The conference endorsed both the nationalists' strategy of seeking majority rule first through negotiations and their contention that armed struggle is inevitable if nonviolent methods fail. More specifically, the conferees agreed to seek financial assistance for Mozambique to induce that country to apply UN sanctions against Rhodesia after Mozambique becomes independent on June 25.

This assistance would be needed to help Mozambique offset the loss of revenue from Rhodesian trade that passes through the country. Mozambique derives some \$50 million annually in port and railway revenues from the Rhodesian traffic. This sum does not take into account indirect losses, such as higher unemployment, that would result if the traffic were cut off.

The Front for the Liberation of Mozambique, the group that dominates the present transitional government, will come under heavy pressure from other African governments to apply sanctions against Rhodesia when the Front assumes complete control in Lourenco Marques upon independence. Mozambique's economic problems are serious, however, and the Front has clearly indicated a need for compensation if Mozambican ports are closed to Salisbury.

Application of sanctions by the Front would be a severe blow to Rhodesian Prime Minister Ian Smith's efforts to stall meaningful negotiations on a constitutional settlement with the black nationalists. The two sides have not talked since they held two exploratory meetings last February.

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BRAZIL

Brazil is making a strong bid to expand its economic ties with Western Europe. The move is part of an overall effort to diversify trade relations as much as possible and lessen reliance on the US, long Brazil's most important trading partner. Brasilia, moreover, is urgently seeking new sources of foreign exchange to alleviate a serious balance-of-payments problem.

Brazil's most significant accomplishment to date is the negotiation of a multibillion-dollar nuclear deal with West Germany. Foreign Minister Silveira is to travel to Bonn next month to sign the agreement, which will cover construction of eight nuclear plants in Brazil and provision of fuel-enrichment technology. Brasilia also is seeking sizable German financing for a planned expansion of its steel industry.

Other initiatives in Western Europe include:

- a series of seminars on investing in Brazil, held in European capitals;
- two European trips by Finance Minister Simonsen and another planned later this month;
- the appointment of two highly regarded former finance ministers as ambassadors to the UK and France;
- plans for Foreign Minister Silveira to visit Paris, possibly in June.

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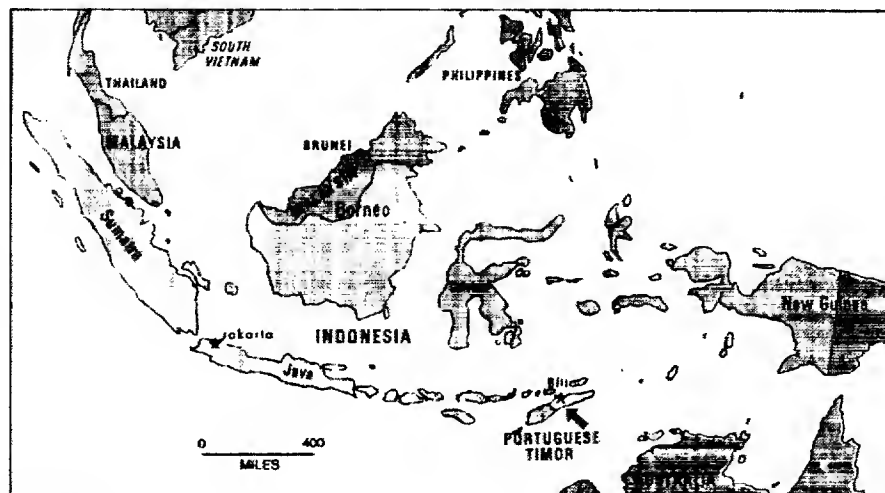
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PORTUGUESE TIMOR

Lisbon has announced that it is beginning negotiations this week with representatives of political organizations in Portuguese Timor toward establishing a transitional government for the colony. The discussions, apparently taking place in Macao, will reportedly be followed by talks next week with representatives of the Indonesian government.

According to an official statement on May 2, separate meetings will be held with Timor's pro-Indonesia party and its pro-independence coalition to discuss:

- recognition by Lisbon that the Timorese people have a right to independence;
- establishment in October 1975 of a transitional government;
- formation in October 1975 of an ad hoc consultative assembly to distribute government portfolios and write an electoral law;
- holding of elections in October 1975 for a constituent assembly empowered to draft a proclamation on independence and a constitution.



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Jakarta has not commented publicly on this scenario, despite the fact that Indonesian officials earlier were adamant in their opposition to any Portuguese resolution of Timor's status leading to ultimate independence for the colony. The apparent change of heart in Jakarta may be the result of recent talks the Indonesians have held with both Portuguese and Timorese leaders. The Indonesians evidently have decided that everyone now tacitly agrees Timor will definitely join Indonesia, although it is by no means certain that the other parties interpreted the recent talks the same way.

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Since March, Jakarta has been fairly upbeat about the prospects for absorbing Timor peacefully. Indonesia believes it has assurances from Lisbon that the Portuguese will give Jakarta carte blanche to influence the course of events in Timor. Indonesian optimism has been reinforced by recent meetings in Jakarta between Murtopo's advisers and Timorese pro-independence leaders, who gave Murtopo the impression that they could be brought to terms.

It is possible the pro-independence Timorese have decided that joining Indonesia is inevitable, but it is equally likely that in their talks with Murtopo they engaged in stalling to buy time and prevent a military invasion of the colony. If the Timorese were in fact misleading Murtopo, a solution to the Timor problem has only been postponed. If it becomes apparent that there is in fact no "understanding" on Timor, Suharto will be hard pressed to withstand the militants in his government who have been calling for immediate invasion.

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JAPAN

Tokyo is considering measures to spur faltering exports. The volume of exports has been declining since reaching a peak last October. Even so, Japan is still running one of the largest trade surpluses of any major country.

The export-promotion package includes increased funding for Japan's Export-Import Bank and improvements in the export insurance system. Government officials are also discussing the possibility of placing restrictions on goods from countries, such as Australia, that have put up barriers against Japanese exports.

Special trade-stimulating measures will apparently focus on East Asian countries--especially Taiwan and South Korea. Although full details are not available, the program would involve an increase in purchases of their products by the Japanese in order to stimulate East Asian demand for Japanese goods. The bulk of East Asian imports of intermediate products come from Japan, which takes a large share of their exports.

Flagging sales to East and Southeast Asian countries are largely responsible for Japan's weakening export performance. The value of exports on a seasonally adjusted basis fell at a 12-percent annual rate during the first three months of this year, compared with the fourth quarter of 1974. Most of the drop reflected lower export volume, although prices also slipped as Japanese firms attempted to improve their competitive position in foreign markets.

This decline is in contrast to Japan's trade performance last year, when exports rose 50 percent in value--faster than any other industrial country. Those gains occurred primarily in trade with less developed and communist countries. The East Asian countries were important growth markets in the first half of 1974.

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Sales to other industrial countries have remained weak because of the general economic slump. Exports to the US, for example, fell 13 percent in value on a seasonally adjusted basis during the first quarter of this year.

Despite falling exports, Japan's seasonally adjusted trade surplus was \$1.9 billion in the first three months of this year. The surplus has remained large because imports are falling as fast as exports, reflecting the severity of Japan's economic slump. Purchases from abroad are likely to continue declining, because some Japanese firms have large inventories of raw materials that account for the bulk of imports.

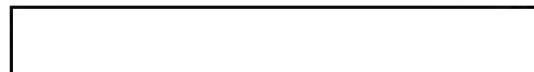
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